

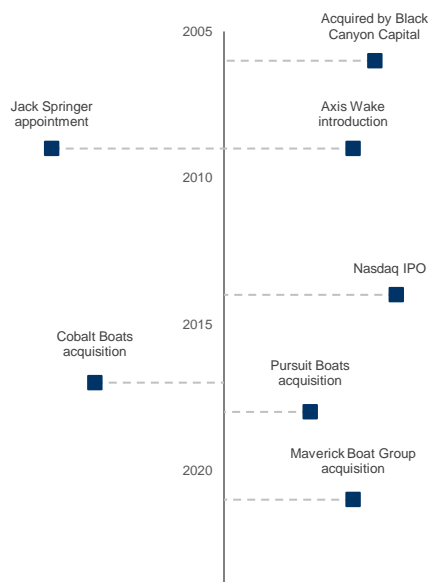
## Key Information

Recommendation	<b>BUY</b>
Price Target (\$)	47.92
Price as of Apr. 28 (\$)	34.15
Industry	Leisure Products
Market Cap (\$mm)	698.4
Avg Volume	264,643
52-Week Range	32.90 - 62.36
P/E (FY25)	7.9x

## The Tiger's Prey Newsletter

www.thetigersprey.com  
info@thetigersprey.com  
@realLigerCub

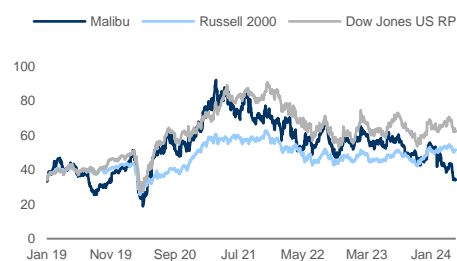
## Exhibit 1. Timeline of Key Past Events



## Upcoming Events

3Q24 financial results	May 2, 2024
Jack Springer departure	May 17, 2024
Buyback program expiration	Nov 8, 2024

## Exhibit 2. Stock price performance vs. market and industry



# Malibu Boats, Inc. (NasdaqGM:MBUU)

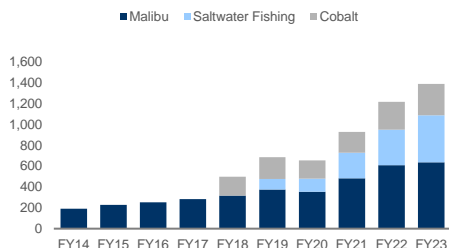
## Riding the Waves of Success

Malibu Boats, a well-established name in the performance sport boat industry, has recently expanded into the sterndrive and saltwater segments through the strategic acquisitions of Cobalt Boats in 2017, Pursuit Boats in 2018 and Maverick Boats Group in 2021. Its differentiated business model, characterized by a vertical integration strategy, positions it for continued outperformance within its markets. Despite prevailing market pessimism, I hold high conviction on Malibu's future prospects. That conviction is based on Malibu's demonstrated ability to capture market share, coupled with margin resilience and the industry reaching its trough. My differentiated view is outlined in the following three thesis points:

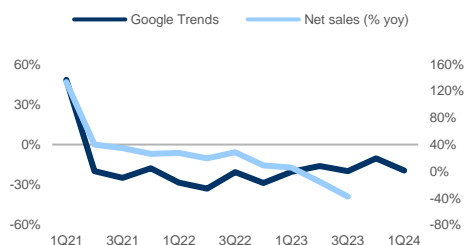
- Imminent Inflection in Demand:** The unprecedented surge in demand for recreational boats during the COVID-19 pandemic, driven by consumers seeking outdoor activities while adhering to social distancing measures, has given its place to a challenging and volatile environment. Rising interest rates and supply chain disruptions have deterred the anticipated post-pandemic recovery. However, signs of renewed interest in boat purchases are emerging, indicating an imminent inflection point will materialize in the coming quarters.
- Enormous Market Share Opportunity:** Malibu's strategic acquisitions of Pursuit Boats and Maverick Boat Group allowed it to penetrate the immense outboard industry category. With a track record of impressive market share gains in the performance sport boat and sterndrive categories, Malibu is positioned to replicate these dynamics within its Saltwater Fishing segment.
- Margins Resilience due to Variable Cost Structure:** Malibu's business model is characterized by a highly variable cost structure, which is translated into a predictable bottom-line performance. While reaching the 20% adj. EBITDA margin target may prove challenging going forward, I am confident in Malibu's capacity to revert to MDD to HDD margins upon normalization.

FYE June (\$k)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	1,214,877	1,388,365	919,792	1,003,456	1,168,826
% yoy	31.1%	14.3%	-33.8%	9.1%	16.5%
Adj. EBITDA	190,103	284,036	123,978	140,044	194,568
% margin	20.3%	20.5%	13.5%	14.0%	16.6%
EBIT	213,823	144,784	86,859	117,460	152,991
% margin	17.6%	10.4%	9.4%	11.7%	13.1%
Adj. EPS (\$)	7.90	9.20	3.52	4.69	5.98
% yoy	31.5%	16.4%	-61.7%	33.3%	27.3%
P/E	4.3x	3.7	9.6x	7.2x	5.7x
Cons. EPS (\$)	-	-	2.81	4.32	5.38

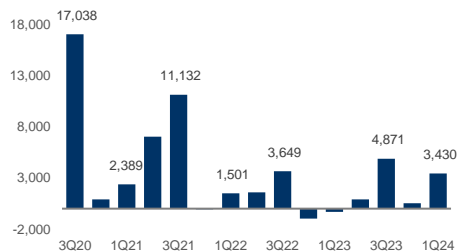
**Exhibit 3. Net sales by segment (\$mm)**



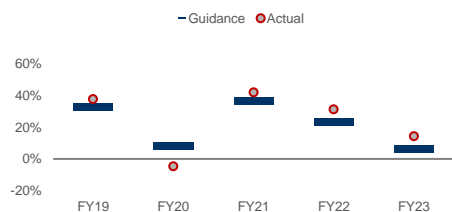
**Exhibit 4. Google Trends interest for US "boats for sale" vs. 1Q lagged MBUU net sales**



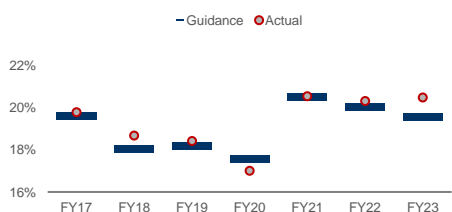
**Exhibit 5. Quarterized monthly gained Instagram followers**



**Exhibit 6. Net sales (%yoy) guidance vs. reported values**



**Exhibit 7. Adj. EBITDA margin guidance vs. reported values**



## Business Overview

Founded in 1982, Malibu Boats is a leading manufacturer of recreational powerboats in the United States. Central to its success is a business model characterized by vertical integration and product feature innovation. Malibu's manufacturing approach targets diminishing reliance to suppliers through initiatives like the recent engine marinization effort. Subsequently, the company distributes its boats across a wide dealer network, facilitating third-party floor plan financing via repurchase agreements. In the event of dealer default, Malibu assumes the obligation to repurchase the unsold inventory. To enhance the marketability of its boats, as well as the loyalty of consumers, Malibu regularly introduces innovative product features (e.g., the Surf Gate system).

## Thesis #1: Imminent Inflection in Demand

The boating industry witnessed a surge in demand during the COVID-19 pandemic as consumers sought outdoor activities while adhering to social distancing measures. However, tough comps, coupled with post-COVID supply chain disruptions, has created an unfavorable mix for Malibu and other industry participants. Nevertheless, it appears that the industry has reached a trough.

An examination of Google Trends data for "boats for sale" in the US over the past 11 quarters reveals a particularly strong correlation when employing a 1Q lag approach. Specifically, the correlation stands at 78.4% with an R<sup>2</sup> of 61.5%. This suggests that for a given change in Google interest, Malibu's sales will most likely move in tandem in the subsequent quarter. Moreover, similar trends are observed with 3Q lags in longer-term series. Consequently, the forthcoming 1-2 quarters are crucial for Malibu due to a discernible trend reversal in Google Trends data.

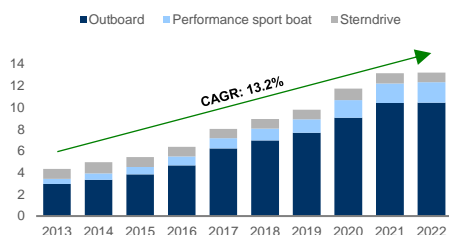
Moreover, social media trends verify the presence of recent added interest. Historically, Malibu typically experienced the bulk of its follower growth in calendar Q3, with Q1 accounting for only 15-25% of that value. However, last quarter saw a remarkable increase to approximately 70%. This reversal is further supported by the success of recent boat shows, which commonly generate a substantial portion of annual sales.

Additionally, there seems to be a ~7% conservatism bias in net sales guidance. Consequently, I project a -29.5% growth for FY24 vs. a guidance midpoint of -36.5%, before adjustments for Tommy's Boats service gaps (see Risk #1). Factoring in a mild conservatism in the adj. EBITDA margin line, I have derived an implied adj. EPS guidance of 3.06, far below my estimate of 3.52, but above the consensus of 2.81.

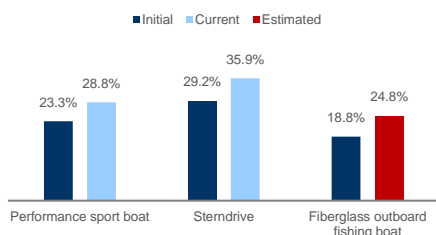
## Thesis #2: Enormous Market Share Opportunity

The recreational powerboats industry is segmented by the NMMA into the outboard, performance sport boats, sterndrive, jet boat, and

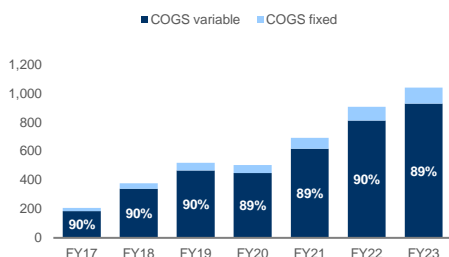
**Exhibit 8.** Total addressable market over time - retail sales (\$bn)



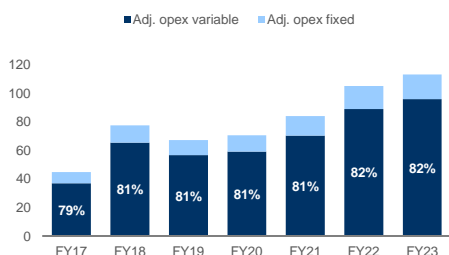
**Exhibit 9.** Market share gains by industry category



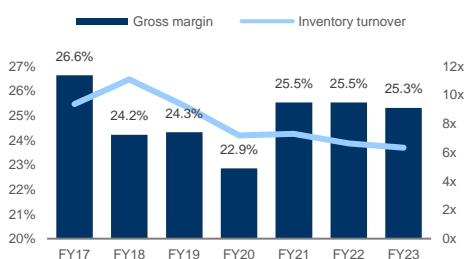
**Exhibit 10.** Cost of sales - variable vs. fixed



**Exhibit 11.** Adj. opex - variable vs. fixed



**Exhibit 12.** Gross margin vs. inventory turnover



cruisers categories. Malibu and Axis operate within the performance sport boats category, while Cobalt competes in the sterndrive segment. Recently, Malibu entered the immense outboard market through the Pursuit Boat and Maverick Boat Group acquisitions in 2017 and 2021, respectively.

Over the past decade, Malibu's addressable market has grown at a CAGR of 13.2%, driven primarily by the outboard and performance sport boat categories, while the sterndrive segment has remained stable. This growth has resulted in a US addressable market size of \$13.2bn, with ~80% attributed to outboard models.

Malibu has demonstrated success in gaining market share in the performance sport boats and sterndrive categories. Through product feature innovation, Malibu and Axis brands have captured a 5.5% market share since 2013, while Cobalt has gained 6.7% since its acquisition by Malibu. Given historical trends, I expect a similar market capture rate of ~6% in the fiberglass outboard fishing boat segment, where Pursuit and MBG brands operate. Aligning with the Street's view that Malibu's market share has recently exceeded 20%, I anticipate potential gains of ~4% in the future.

### Thesis #3: Margins Resilience due to Variable Cost Structure

Malibu's cost structure is primarily comprised of variable costs, with ~89% of COGS and ~81% of adj. operating expenses historically classified as variable. Although there has been a slight decrease in H1, with COGS at 86% and adj. operating expenses at 77%, the proportion remains high and is expected to revert to historical levels.

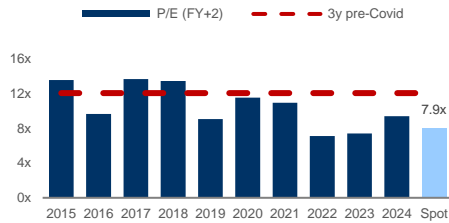
To illustrate, the predictability of margins is evident in the COGS line, where variable costs consistently account for around 67.5% of sales. Additionally, fixed costs exhibit an exponentially diminishing growth rate with the considerably high R<sup>2</sup> of 88.5%. This analysis used depreciation as a proxy for fixed costs, as it is almost entirely part of COGS in Malibu's case.

With that in mind, there may be some margin pressure in H2 as the promotional environment normalizes. It's worth noting that Malibu and Axis's inventory has almost fully normalized, with the company expecting the current quarter to be key in achieving firm-wide inventory normalization.

### Appealing Entry Point for a Multi-Year EPS Ride

The current market sentiment towards Malibu is cautious, with investors awaiting concrete results of a demand recovery. This reluctance to assign a higher valuation to the company has been exacerbated by the ongoing C-suite transitions and the channel stuffing allegations by Tommy's Boats, one of its main dealers along with OneWater Marine. My PIE analysis indicates that the market has fully adopted Tommy's Boats' perspective, factoring in litigation

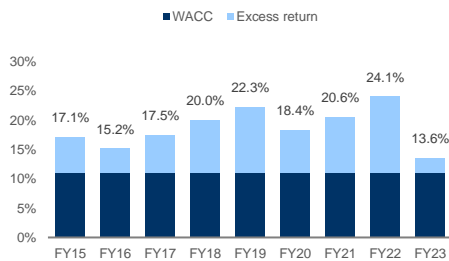
**Exhibit 13.** Daily average P/E (FY+2) vs. 3y pre-Covid average



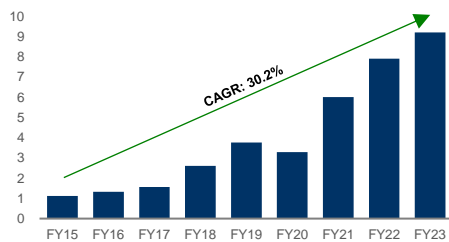
**Exhibit 14.** P/E (CY+2) vs. S&P 500



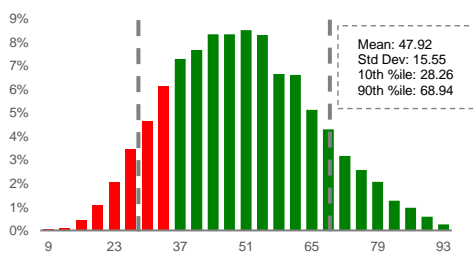
**Exhibit 15.** ROIC over time



**Exhibit 16.** Adj. EPS over time



**Exhibit 17.** Monte Carlo simulation



expenses of \$110-150mm (see Risk #1). Furthermore, a -40% sales growth this year and a modest 4-5% thereafter are priced in, with operating margins reaching 16% by FY28-30.

In contrast, I am modeling a -33.8% drop in sales this year and a c. 10% CAGR thereafter (adj. for inventory repositioning disruptions), driven primarily by market share gains in the Saltwater Fishing segment and ASP increases from that product mix change. Additionally, I expect a volume bump of 400 units in FY26 following an \$150mm strategic acquisition in the Outboard category, likely involving a Pontoon addition. However, I agree with the market that the 20% adj. EBITDA margin target will not be met going forward, although the 10% long-term net sales growth target is within my estimates.

The market's pessimism towards the firm's prospects is reflected in the current FY25 multiples. Currently, Malibu trades at a 7.9x P/E multiple, significantly lower than its historical average of around 12.0x. Additionally, the firm trades at a historically low 11.1x discount to SPX, partly due to company-specific factors, such as the FY24 guidance cut in January, the stepping down of longtime CEO Jack Springer in February, and the lawsuit by Tommy's Boats this month. It's noteworthy that just 5 days after the executive transition announcement, Michael Hooks, the new chairman of the company, bought more than \$500k worth of MBUU stock, the first meaningful insider buy since 2020.

Despite the market's overly conservative expectations, Malibu exhibits solid fundamentals. The company has generated approx. 8% excess returns and grown EPS at a 30.2% CAGR since FY15. I anticipate continued bottom-line compounding, albeit in the HDD range, while operating debt-free going forward. Accounting for value creation, my 3y IRR stands at 15.6%, derived from a Monte Carlo simulation. This translates into a compelling 2.3x R/R, calculated using the mean and the 10<sup>th</sup> percentile.

## Risk #1: Litigation Overhang and Dealer Defaults

Earlier this month, Tommy's Boats accused Malibu of channel stuffing in an \$100mm+ lawsuit. Several indications, such as Tommy's Boats assertion that "Malibu has a large fixed cost base," M&T Bank's motion against Tommy's Boats and the absence of a dealership agreement, suggest that the lawsuit has been filed in bad faith. Despite this, inventory repositioning, potential patent disputes with rivals and other dealer defaults are all major concerns.

## Risk #2: Cyclical and Secular Volatility in Demand

Recreational boating is highly cyclical, as boat sales closely track discretionary spending patterns. The latter are affected by elevated interest rates, inflation and energy costs. Additionally, secular trends, such as shifts in consumer preferences towards used boats, competition for leisure time and evolving lifestyle trends, can have a significant impact on demand for Malibu's products.

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